

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**Telecommunications Division
Carrier Branch**

**RESOLUTION T-16734
February 27, 2003**

R E S O L U T I O N

**RESOLUTION T-16734. CORRECTS ERROR IN RESOLUTION T-16711,
DATED JANUARY 16, 2003, THE SIERRA TELEPHONE COMPANY,
INC. (U-1016-C). GENERAL RATE CASE FILING.**

Summary

This resolution corrects The Sierra Telephone Company, Inc. (Sierra) General Rate Case Resolution T-16711 due to inadvertent use of incorrect data to forecast expenses. In that Resolution, the Commission adopted a) an intrastate ROR of 10%, b) an intrastate operating expense in the amount of \$17,244,505 and c) an authorized CHCF-A support for test year 2003 of \$11,649,067.

This resolution authorizes a corrected intrastate operating expenses in the amount of \$18,751,618 for Sierra for the test year 2003. This represents an increase of \$1,507,113 or 8.7% from the operating expenses approved in Resolution T-16711. As a result of this change in expenses, this resolution also authorizes a revised intrastate net operating revenue and rate base of \$3,755,965, and \$37,559,717, respectively. The revised net operating revenue and rate base will maintain an overall Intrastate Rate of Return of 10.00% for the test year 2003. Further authorized by this resolution is CHCF-A support for Sierra for test year 2003 of \$13,175,550. This amount represents an increase of \$1,526,483 or 13.1% increase from the CHCF-A 2003 support of \$11,649,067 from Resolution T-16711.

Appendix A compares Resolution T-16711 and the Telecommunications Division's (TD) corrected Interstate and Intrastate Results of Operations before any CHCF-A adjustments. Appendix B compares Resolution T-16711 and TD's Intrastate Results of Operations estimate after CHCF-A adjustments. Appendix C shows TD's calculation of the Net-to-Gross Multiplier and the change in the gross intrastate revenue requirement based on an adopted intrastate rate of return of 10.00%.

Background

On January 16, 2003, the Commission approved Sierra's General Rate Case filing in Resolution T-16711. The resolution authorized a) an intrastate operating revenue in the amount of \$23,644,229, b) an intrastate operating expenses in the amount of \$17,244,505, c) total intrastate rate base of \$37,443,117, d) an overall Intrastate Rate of Return of 10.00%, and e) a CHCF-A support for test year 2003 of \$11,649,067.

After the approval of Resolution T-16711, Sierra provided TD with its own regression analysis on the four major expense accounts. Sierra indicated that though it utilized the same underlying data to run the regression, there was a discrepancy in the results between its own analysis and Resolution T-16711 in the Plant Specific expense account.

Discussion

Underlying Expense Data Error

In Resolution T-16711, TD ran the regression on the Plant Specific account utilizing 1996-2001 annual report data and obtained a low coefficient of determination. However, when Sierra ran the regression based on utilizing the same data set, the coefficient is in excess of 90%. Upon further review, TD discovered an inadvertent error in the use of its underlying annual report data. In the actual recorded Plant Specific account, TD had incorrectly used an expense amount of \$3,771,000 for the year 1996, whereas the correct amount should only be \$3,198,000. When TD ran the regression utilizing the correct expense amount, the analysis resulted in a coefficient of determination in excess of 90%.

Since the corrected Plant Specific data yields a coefficient in excess of 90%, TD has changed the methodology used to forecast this expense account. In the approved resolution, TD had utilized the constant dollar methodology (CDM) to forecast Plant Specific expense because the coefficient was low. TD had determined that when the coefficient of determination was in excess of 90%, regression methodology could be utilized to forecast expenses and when the coefficient was low, then the CDM could be used. Now that the data correction results in a coefficient in excess of 90%, TD used the regression methodology to forecast for Plant Specific expense.

Based on regression analysis, TD estimates intrastate Plant Specific expense at \$6,083,549, which is greater than the adopted expenses in Resolution T-16711 of \$4,576,436 by \$1,507,113 or 32.9%. A comparison of TD's and the adopted expenses in Resolution T-16711 of intrastate operating expenses for test year 2003 is shown in Appendix A.

Results of Operations

Based on the intrastate operating expense of \$18,751,618, TD calculates that Sierra will earn in test year 2003 a total company overall rate of return of 6.35% at present rates as compared to the 8.79%% calculated by TD in the approved Resolution T-16711. Since Sierra is earning under TD's goal of an overall rate of return of 10.00%, TD proposes to change Sierra's CHCF-A support for test year 2003. Appendix A compares Resolution T-16711 and TD's corrected Interstate and Intrastate Results of Operations.

CHCF-A Support

Resolution T-16711 authorized Sierra's CHCF-A draw for 2003 to be \$11,649,067. By correcting the underlying expense data and adjusting the forecasting methodology, TD's computation of Sierra's adopted CHCF-A requirement is now \$13,175,550 based on the correction in expenses and an overall intrastate rate of return of 10.00%. Appendix B compares Resolution T-16711 and TD's corrected Intrastate Results of Operations and the overall intrastate rate of return of 10.00%.

CHCF-A Payment

TD in concert with the Information and Management Services Division (IMSD) shall make the monthly support CHCF-A payment to Sierra in accordance with the payment timeline set forth in D.01-09-064. The payment of monthly support to Sierra is contingent on the availability of funds and the Commission and State adoption of the budgets covering the payment for the 2003 CHCF-A support. Each monthly support payment is to be paid within 30 days after the close of each calendar month. Should the monthly support payments due Sierra not be paid within 30 days after the close of each calendar month, TD shall include in those payments interest equal to the 3-month commercial paper rate.

Comments

In order to expedite the Commission's consideration of this corrected resolution, we are asking all parties to this advice letter to waive the 30 day wait period as prescribed in Section 311(d). This waiver should be made in writing to the Telecommunications Division by February 18, 2003. This waiver will allow the Commission to consider this corrected resolution at the Commission's February 27, 2003 meeting. Any comment or protest to this corrective resolution should be filed with the Telecommunications Division by February 21, 2003.

No comments or protests were filed to this resolution.

Findings

1. In Resolution T-16711, Sierra was authorized the following:

- A California High Cost Fund-A (CHCF-A) support of \$11,649,067;
 - An Intrastate Rate of Return of 10.00%; and
 - An Intrastate Expense of \$17,244,505.
2. After the approval of Resolution T-16711, TD discovered an inadvertent error in the use of its underlying annual report data to forecast Plant Specific expenses. TD had incorrectly used an expense amount of \$3,771,000 for the year 1996, whereas the correct Plant Specific amount should only be \$3,198,000.
 3. In the approved resolution, TD had utilized the CDM to forecast Plant Specific because the regression yielded a low coefficient of determination. When TD ran the regression utilizing the correct expense amount, the analysis resulted in a coefficient in excess of 90%.
 4. The Commission finds TD's correction of \$8,199,700 to forecast total Plant Specific expense to be reasonable. Therefore the Commission finds TD's revised intrastate expense, revenue, rate base and CHCF-A support shown in Appendix B to be acceptable.
 5. TD in concert with the Information and Management Services Division (IMSD) shall make the monthly support CHCF-A payment to Sierra in accordance with the payment timeline set forth in D.01-09-064
 6. Commission approval is based on the specifics of this Advice Letter and does not establish a precedent for the contents of any future filings by small ILECs.

THEREFORE, IT IS ORDERED that:

1. The intrastate revenues, expenses, and rate base amounts for test year 2003 identified in Appendix B, column (e) are adopted for The Sierra Telephone Company, Inc and supercedes the amount adopted in Resolution T-16711.
2. A corrected Intrastate Operating Expense of \$18,751,618 is approved.
3. The Sierra Telephone Company, Inc.'s CHCF-A draw for 2003 is \$13,175,550, or a monthly draw of \$1,097,962.50 for January through December 2003.
4. This resolution directs the Telecommunications Division (TD) in concert with Information and Management Services Division (IMSD) to pay The Sierra Telephone Company, Inc. monthly support payments in the amount indicated above. The monthly support payments for January 2003 through December 2003 are to be paid within 30 days after the close of each calendar month. The payment of monthly support to Sierra is contingent on the availability of funds and the Commission and State adoption of the budgets covering the payment for the 2003 CHCF-A support.

February 27, 2003

In the event that the monthly support payments due Sierra are not paid within 30 days after the close of each calendar month, TD shall include in those payments interest equal to the 3-month commercial paper rate.

5. This resolution also directs TD to pay The Sierra Telephone Company, Inc. interest equivalent to the 3-month commercial paper rate for the unpaid January 2003 CHCF-A monthly support payments.

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on February 27, 2003. The following Commissioners approved it:

/s/ WILLIAM AHERN

WILLIAM AHERN
Executive Director

MICHAEL R. PEEVEY
President

CARL W. WOOD
LORETTA M. LYNCH
GEOFFREY F. BROWN
SUSAN P. KENNEDY
Commissioners

APPENDIX A

THE SIERRA TELEPHONE COMPANY, INC.
RESULTS OF OPERATIONS AT PRESENT RATES
INTERSTATE AND INTRASTATE
TEST YEAR 2003

	<u>Approved Resolution T-16711</u>			<u>TD Correction</u>		
	<u>Subject</u>			<u>Subject</u>		
	<u>To</u>		<u>Intrastate</u>	<u>To</u>		<u>Intrastate</u>
	<u>Separations</u>	<u>Interstate</u>	<u>Total</u>	<u>Separations</u>	<u>Interstate</u>	<u>Total</u>
	(d)	(e)	(f)= (d-e)	(d)	(e)	(f)= (d-e)
<u>OPERATING REVENUES:</u>						
1. Local Network Services	7,270,122		7,270,122	7,270,122		7,270,122
2 Local Servics - CHCF-A	10,898,442		10,898,442	10,898,442		10,898,442
3 Long Distance Network	0			0		
Network Access Svces:						
4 Intrastate	3,118,523		3,118,523	3,118,523		3,118,523
5 Interstate	11,563,085	11,563,085	0	11,563,085	11,563,085	0
6 Interstate - USF	5,803,376	5,803,376	0	5,803,376	5,803,376	0
7 Miscellaneous	1,617,858	0	1,617,858	1,617,858	0	1,617,858
8 LESS: Uncollectible Rev.	(11,341)		(11,341)	(11,341)		(11,341)
9 Total Oper. Revenues	40,260,065	17,366,461	22,893,604	40,260,065	17,366,461	22,893,604
<u>OPERATING EXPENSES:</u>						
10 Plant Specific	6,168,340	1,591,904	4,576,436	8,199,700	2,116,151	6,083,549
11 Plant Non-Specific (less depr.)	2,250,170	631,295	1,618,875	2,250,170	631,295	1,618,875
12 Depreciation & Amortization	10,434,911	2,659,543	7,775,368	10,434,911	2,659,543	7,775,368
13 Customer Operations	4,328,300	896,891	3,431,409	4,328,300	896,891	3,431,409
14 Corporate Operations	7,407,800	1,762,007	5,645,793	7,407,800	1,762,007	5,645,793
15 Interstate Expense Adj. -USF	0	5,803,376	(5,803,376)	0	5,803,376	(5,803,376)
16 Total Oper. Expenses	30,589,521	13,345,016	17,244,505	32,620,881	13,869,263	18,751,618
<u>OPERATING TAXES:</u>						
17 Operating State Inc. Taxes	752,888	329,054	423,834	573,316	282,711	290,605
18 Operating Fed Income Taxes	2,575,424	1,136,955	1,438,469	1,945,817	974,467	971,350
19 Taxes Other Than Income	663,900	169,798	494,102	663,900	169,798	494,102
20 Total Operating Taxes	3,992,212	1,635,807	2,356,405	3,183,033	1,426,976	1,756,057
21 Net Operating Revenue	5,678,332	2,385,638	3,292,694	4,456,151	2,070,222	2,385,929
<u>RATE BASE (Beginning + End of Year Average)</u>						
22 Telephone Plant-in-Service	126,452,595	32,952,709	93,499,886	126,452,595	32,952,709	93,499,886
23 Tel. Plt Under Construction	1,575,000	410,435	1,164,565	1,575,000	410,435	1,164,565
24 Mat & Supplies	750,000	203,661	546,339	750,000	203,661	546,339
25 Working Cash	1,426,908	270,008	1,156,900	1,543,508	270,008	1,273,500
26 Less: Deprec. Res.	(72,880,301)	(18,802,125)	(54,078,176)	(72,880,301)	(18,802,125)	(54,078,176)
27 Def. Taxes	(6,577,057)	(1,738,035)	(4,839,022)	(6,577,057)	(1,738,035)	(4,839,022)
28 Customer Deposit	(9,974)	(2,599)	(7,375)	(9,974)	(2,599)	(7,375)
29 RTB Stock	124,029	124,029	0	124,029	124,029	0
30 Total Rate Base	50,861,200	13,418,083	37,443,117	50,977,800	13,418,083	37,559,717
31 Rate of Return	<u>11.16%</u>	<u>17.78%</u>	<u>8.79%</u>	<u>8.74%</u>	<u>15.43%</u>	<u>6.35%</u>

APPENDIX B

THE SIERRA TELEPHONE COMPANY, INC.
INTRASTATE RESULTS OF OPERATIONS
AT ADOPTED RATE OF RETURN
TEST YEAR 2003

		Approved	TD	CORRECTION EXCEED T-16711		
		T-16711	Correction	AMOUNT	Percent	ADOPTED
		(a)	(b)	(c)	(d)	(e)
OPERATING REVENUES:						
1	Local Network Services	7,270,122	7,270,122	0	0.0%	7,270,122
2	Local Services - CHCF-A	11,649,067	13,175,550	1,526,483	13.1%	13,175,550
3	Long Distance Network	0	0	0	0.0%	0
Network Access Svces:						
4	Intrastate	3,118,523	3,118,523	0	0.0%	3,118,523
5	Interstate	0	0	0	0.0%	0
6	Interstate - USF	0	0	0	0.0%	0
7	Miscellaneous	1,617,858	1,617,858	0	0.0%	1,617,858
8	LESS: Uncollectible Rev.	(11,341)	(11,341)	0	0.0%	(11,341)
9	Total Oper. Revenues	23,644,229	25,170,712	1,526,483	6.5%	25,170,712
OPERATING EXPENSES:						
10	Plant Specific	4,576,436	6,083,549	1,507,113	32.9%	6,083,549
11	Plant NSpecific (less depr.)	1,618,875	1,618,875	0	0.0%	1,618,875
12	Depreciation & Amortization	7,775,368	7,775,368	0	0.0%	7,775,368
13	Customer Operations	3,431,409	3,431,409	0	0.0%	3,431,409
14	Corporate Operations	5,645,793	5,645,793	0	0.0%	5,645,793
15	Interstate Expense Adj. -USF	(5,803,376)	(5,803,376)	0	0.0%	(5,803,376)
16	Total Oper. Expenses	17,244,505	18,751,618	1,507,113	8.7%	18,751,618
OPERATING TAXES:						
17	Operating State Inc. Taxes	490,189	491,901	1,712	0.3%	491,901
18	Operating Fed Income Taxes	1,671,123	1,677,126	6,003	0.4%	1,677,126
19	Taxes Other Than Income	494,102	494,102	0	0.0%	494,102
20	Total Operating Taxes	2,655,414	2,663,129	7,715	0.3%	2,663,129
21	Net Operating Revenue	3,744,310	3,755,965	11,655	0.3%	3,755,965
RATE BASE (Beginning + End of Year Average)						
22	Telephone Plant-in-Service	93,499,886	93,499,886	0	0.0%	93,499,886
23	Tel. Plt Under Construction	1,164,565	1,164,565	0	0.0%	1,164,565
24	Mat & Supplies	546,339	546,339	0	0.0%	546,339
25	Working Cash	1,156,900	1,273,500	116,600	10.1%	1,273,500
26	Less: Deprec. Res.	(54,078,176)	(54,078,176)	0	0.0%	(54,078,176)
27	Def. Taxes	(4,839,022)	(4,839,022)	0	0.0%	(4,839,022)
28	Customer Deposit	(7,375)	(7,375)	0	0.0%	(7,375)
29	RTB Stock	0	0	0	0.0%	0
30	Total Rate Base	37,443,117	37,559,717	116,600	0.3%	37,559,717
31	Rate of Return	10.00%	10.00%			10.00%

APPENDIX C

THE SIERRA TELEPHONE COMPANY, INC.
ADOPTED NET-TO-GROSS MULTIPLIER
INTRASTATE REVENUE REQUIREMENT AND CHCF-A SUPPORT
TEST YEAR 2003

1	Gross Revenues		1.00000
2	Uncollectibles*		0.00000
3	Net Revenues		1.00000
4	State Income Tax (Tax Rate times In 3.)	8.84%	0.08840
5	Federal Taxable Income (In 3. less In 4.)		0.91160
6	Federal Income Tax (Tax Rate time In 5.)	34.00%	0.30994
7	Net Income (In 5. less In 6.)		0.60166
8	NET TO GROSS MULTIPLIER (In 1. divided by In 7.)		1.66207

Intrastate Revenue Requirement

9	Adopted State Rate Base		\$37,559,717
10	Net Revenues Adopted at 10.00%	10.00%	\$3,755,972
11	Net Revenues at Present Rates		\$2,385,928
12	Change in Net Revenues (In 10. less In 11.)		\$1,370,044
13	GROSS REVENUE CHANGE REQUIRED (In 12. times In 8.)		\$2,277,109

CHCF-A Support

14	Recovery of Rate Case Expenses (3-year amortization)		\$0
15	2003 CHCF-A Support at Present Rates		\$10,898,442
16	2003 CHCF-A Support Adopted (In 15. add In 13.)		\$13,175,551

*Uncollectibles are included in Line 1, Gross Revenues.